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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Third Quarter 2018 Ctrip.com International, Ltd. Earnings Conference Call. My name is Edward, and I will be the moderator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

Now I will hand the call to Chief Communications Officer, Mr. Victor Tseng. Please begin. Thank you.

Victor Tseng

Thank you. Good morning, and welcome to Ctrip's Third Quarter 2018 Earnings Conference Call. Joining me today on the call are Mr. James Liang, Chief Executive Chairman of the Board; Ms. Jane Sun, Chief Executive Officer; and Ms. Cindy Wang, Chief Financial Officer.

During this call, we will discuss our future outlook and performance, which are forward-looking statements made under the safe harbor provisions of U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. The number of potential risks and uncertainties are outlined in Ctrip's public filings with the Securities and Exchange Commission. Ctrip does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

James, Jane and Cindy will share our strategy and business updates, operating highlights and financial performance for the third quarter of 2018 as well as the outlook for the fourth quarter of 2018. After their prepared remarks, we will have a Q&A session.

With that, I will turn the call over to James. James, please.

Jianzhang Liang ***Ctrip.com International, Ltd. - Co-Founder & Executive Chairman***

Thank you, Victor, and thanks to everyone for joining us on the call today.

Ctrip continued making solid progress on every front of our business in the third quarter of 2018. Despite the softer growth of the overall market during the quarter, we increased the multiple by which we are outpacing the industry's average growth. We remain confident and enthusiastic about the future long-term opportunity represented by both China and the global travel industry and are working hard to further expand our market reach.

To start, I would like to share some of our thoughts on China's macro economy. We believe China will continue to be one of the fastest-growing economies in the world going to the next decade, driven by technology advances, continued urbanization and the evolution to a consumption and service-led growth model. This will sustain the growth of China's middle class over the long term.

Travel industry will naturally benefit from China's sustained economic growth. There are a couple of drivers that I'm particularly excited about going forward for China's travel industry. One, China has the largest network of high-speed rail spanning over 25,000 kilometers, twice that of the European system. By 2020, the high-speed rail will connect more than 80% of Chinese cities with a population of over 1 million. This is helping make domestic travel very accessible and economical. In fact, we recently launched the first high-speed rail tour channel on the Ctrip app. Within the first month, daily orders reached its highest, 100,000.

Two, China's commitments to its open economy strategy will continue to drive the growth of international travel. China's outbound travel base is already the world's largest, spanning over USD 200 billion overseas last year but currently accounts for less than 10% of total Chinese population. In past years, China's new passport issuance maintained annual growth of approximately 20%. Moreover, the Chinese passports can now allow Chinese to travel to 74 countries and territories around the world with no visa or visa-on-arrival requirements.

In spite of the short-term fluctuation in the outbound travel growth, Ctrip is dedicated to extend our core competencies in international destinations to meet the long-term demand of Chinese international travelers. Furthermore, leveraging China's advantage as the world's largest tourism source market, we are transforming our global supply chain capability for non-Chinese users booking through Trip.com and Skyscanner.

Third, foreigners traveling to China accounts for fewer than 30 million overnight trips once we take out visitors from Hong Kong, Taiwan and Macau, according to the Ministry of Culture and Tourism. There is a vast potential to increase its volume when compared to the United States, which has over 75 million inbound tour visitors every year. And according to global research firm, Euromonitor, in a recent report, China is set to become the world's #1 tourist destination by 2030.

Our global brands, Trip.com and Skyscanner, representing over 90 million monthly active global users, are in the prime position to capitalize on the opportunities to bring more foreigners to China. As such, we are excited about the opportunities in the China travel industry that lie ahead. And as historically, we have outpaced China growth, GDP growth, by over 4x, Ctrip is set to continue strengthening our market leadership position.

Next month, we will celebrate the 15th anniversary of our IPO on NASDAQ. We have established a strong track record and are committed to continuing riding the travel growth wave. During the high tides, we can boost our scale and profitability. During low tides, we can extend our competitive advantage and accelerate market share gain. We will continue to work hard to extend the advantage of the scale while seizing the opportunities presented by the globalization to drive Ctrip's long-term success.

With that, I will turn the call over to Jane.

Jane Jie Sun ***Ctrip.com International, Ltd. - CEO & Director***

Thanks, James. Hello, everyone. Ctrip reported solid results in the third quarter of 2018. In particular, accommodation revenue grew 21% year-over-year, mainly driven by volume growth. In the mid- to high-end hotel segment, we have extended our leadership over our peers with a growth that doubles the hotel industry rate. In the lower-end hotel segment, Ctrip's brand volume growth further accelerated to around 50% year-over-year. Transportation volume grew 6% year-over-year. We continued to see strong volume growth across transportation product categories, while revenue growth was still impacted by the domestic air ticketing booking adjustment that we initiated in the second half of the fourth quarter last year.

For the trailing 12 months ending September 30, 2018, GMV excluding Skyscanner, increased by approximately 30% year-over-year, reaching RMB 690 billion. Non-GAAP operating margin reached 20%, continuing its consistent improvement from previous quarter.

Today, I would like to share an update on 4 points: Ctrip's customer base, user engagement, supplier network and international development. First, on customer base. Ctrip has a large, growing and loyal customer base, which includes 110 million monthly active users in China and more than 90 million outside of China across our portfolio of trusted brands: Ctrip, Qunar, Trip.com and Skyscanner. In total, this brings us over 200 million users, making Ctrip one of the largest travel-focused companies in the world. Ctrip and the Qunar brand alone generate 130 million annual transacting customers in China that spend more than RMB 5,000 per year on our platform. Despite the large scale in China there is still huge potential for us to extend our customer base. According to a recent study, China's middle-class population will grow from 430 million in 2017 to 780 million in the next 5 to 10 years. We have seen that when customer have a real travel demand, they prefer to use Ctrip to provide them with not only comprehensive travel products but also the most reliable services.

70% of our customers are in the age of 35 over the next -- past 5 years. We think this number, young generation users under the age of 29, continues to grow from 30% to almost 50%, which represents the fastest-growing age group in our portfolio. In addition, our customer has demonstrated strong loyalty and affinity on our platform. This is primarily due to our one-stop shopping solution and superior service capability. Once our customer experience the Ctrip services, our annual repurchase ratio is 40% to 50%, while biannual repurchase ratio increased to 70% to 80%. Just as importantly, according to our cohort data, we have been able to also increase their average travel spending each year by a multiple-fold, resulting in our repeating customer accounting to around 80% of total transactions.

Second, on user engagement. The Ctrip app has become the go-to platform for Chinese travelers. We make it a super app for travel users. Our users are engaging with us more and more throughout their travel research, reservation process and in-destination funnel. Our app covers over 60 travel-related products and services, meaning it's also one of the most comprehensive selections and are capable of covering all demands of a typical customer travel itinerary. We have around 6 million points of interests that include travel destination information, attraction tickets, restaurants, et cetera. And those point of interests are supported by a vast number of user reviews to assist our users in finding, selecting and booking in-destination products. As a result, 30% to 40% of our app traffic during peak travel season is generated from our users while they are in destination. Ctrip's domestic in-destination activity transaction grew 60% year-over-year and international in-destination transaction grew 120% year-over-year for in-destination activities during the third quarter.

Third, extending our supplier network and strengthening partnerships. As we continue to expand our hotel partner network, the number of the hotels with guaranteed allotment increased by 160% year-over-year within China. We have launched a flagship store, Accor and Hyatt, and already seeing thousands of incremental daily room nights for the 2 brands being booked through our flagship store. We are currently further expanding this initiative with more flagship stores currently under development. By leveraging our unique insights into our travel market, Ctrip is helping our partners to better utilize our platform to understand our customer. To date, 70,000 hotel managers are taking training courses at Ctrip hotel university and witnessed a good boost in booking volumes post the training. For airline partners, Ctrip's also committed to helping airlines to improve operating efficiency and to developing innovative membership service system. For example, last month, Ctrip and KLM signed a strategic partner agreement to deepen the mutually beneficial corporation.

Fourth, on international development. Skyscanner is already one of the largest travel platforms in the world. And in the third quarter, its global MAU increased by 26% year-over-year. Direct booking grew approximately 250% year-over-year, contributing around 10% of Skyscanner's total worldwide bookings.

In late September, we officially launched a rail app for international trains called TrainPal. This is also our first product aimed at the international audience to come out of our daily type approach, which is an internal program that has fostered many internal travel innovation and businesses for Ctrip throughout the year. TrainPal utilizes technologies to sort through all the available routes and provide ticket fare to our users. To date, TrainPal users have, on average, saved nearly 40% on train ticket when using TrainPal. The long-term vision for the app is a one-stop shop for global rail booking, allowing our users in any geography to book rail tickets anywhere in the world.

In summary, we are seeing our large, growing and loyal base continue to increase their engagement on Ctrip's platform. We are selling more travel products across our customers' travel itinerary, and we have become increasingly diversified with revenue coming from our international businesses. We have historically outpaced China's GDP growth by a factor of 4. With our strong foundation in travel industry, despite the ongoing macro uncertainty, we are confident that we are the best travel company to capture more travel opportunities and share the growth going forward.

With that, I will turn the call to Cindy to walk you through the details of our financial results.

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Thanks, Jane. Thanks, everyone. For the third quarter of 2018, Ctrip reported net revenue of RMB 9.4 billion, representing 15% increase from the same period in 2017. Accommodation reservation revenue for the third quarter of 2018 was RMB 3.6 billion, up 21% year-on-year, primarily driven by an increase in accommodation reservation volume. We further expanded our total global hotel coverage by over 20% year-on-year, reaching 1.4 million properties. International hotels continued to outperform the industry, more than doubling the industry growth rate.

Transportation ticketing revenue for the third quarter of 2018 was RMB 3.6 billion, representing a 6% increase from the same period in 2017. Air ticketing maintained strong volume growth. Particularly, our international air ticketing growth almost tripled outbound industry growth. Similar to the first half of the year, revenue growth was offset by the decrease of per air ticket segment revenue, which is related to the operating adjustment we've discussed in previous quarters. We expect the situation will improve in the following quarters with comparatively easier comps.

Trip.com continued to perform exceptionally well in the third quarter and achieved double-digit growth in air ticketing volumes for the eighth consecutive quarter. Land transportation, including train ticketing, bus ticketing, ferry ticketing and car services continued its strong performance. In September, we launched the TrainPal, our rail ticketing app for the international market to help local user find the cheapest railway ticket.

Packaged tour revenue for the third quarter of 2018 was RMB 1.4 billion, up 28% year-on-year, primarily driven by an increase in volume growth of both organized tours and self-guided tours. By the end of the third quarter, we have over 7,000 offline stores, covering more than 200 cities in China. Gross transaction value through offline stores increased over 80% year-on-year. Going forward, we will open more stores to increase our penetration in targeted lower-end cities.

Customized tours also delivered exceptional performance with gross bookings increase by 65% year-on-year. In the first quarter, the first class of graduates for our customized tour training camp went into the business. We are thrilled that the conversion rate from inquiry to booking were increased 4x for these tour planners.

Corporate travel revenue for the third quarter of 2018 was RMB 267 million, up 31% year-on-year. The growth in corporate travel business was primarily driven by the expansion of our travel product coverage. Over 70% of our corporate travel users are making bookings, approving orders and changing itineraries by Ctrip Biz mobile app.

Other business, including advertisement, financial services and others, increased by 6% year-on-year in the third quarter of 2018, reaching RMB 503 million. The deceleration of growth compared to previous quarters mainly related to the high advertisement revenue base in the third quarter of 2017.

Gross margin was 79% for the third quarter of 2018 compared to 84% in the same period in 2017 and 80% in the previous quarter. The year-over-year decrease in gross margin was mainly due to the decrease of per ticket -- per air ticket revenue due to operating adjustments. The sequential decrease in gross margin was mainly related to higher service costs as we upgraded service quality to be more customer-centric, an effort in extending our international service team and increased revenue mix from certain lower gross margin business that we consolidated in previous years.

Excluding share-based compensation charges, total non-GAAP operating expenses grew 13% year-on-year and 18% quarter-over-quarter in the third quarter of 2018. Product and development expenses and G&A expenses delivered continued operating leverage as we achieved the higher scale economy with a steady headcount.

Sales and marketing efficiency continued to improve through product innovation for targeting customers and an improved cross-selling ratio. On average, the acquisition cost per user is only a very small fraction of their average annual revenue contribution to Ctrip, even as many of these new customers are coming from lower-tier cities.

Non-GAAP operating profit in the quarter was RMB 1.9 billion compared to RMB 2 billion in the same period in 2017 and RMB 1.2 billion in the previous quarter. Non-GAAP operating margin for the third quarter was 20%, increasing from 16% in the previous quarter, mainly related to the operating efficiency improvement.

The company adopted the new financial instrument accounting standard from January 1, 2018, and measures its available-for-sale equity securities at fair value with gains allotted recorded through the income statement. The impact of applying this new standard for the third quarter of 2018 resulted in a loss of approximately RMB 2.5 billion in net income net of tax.

Diluted loss per ADS were RMB 2.08 or USD 0.30 for the third quarter of 2018. Excluding share-based compensation charges and fair value changes of equity security investment, non-GAAP diluted earnings per ADS were RMB 2.88 or USD 0.42 for the third quarter of 2018. As of September 30, 2018, the balance of cash and cash equivalents, restricted cash and short-term investment was RMB 63.3 billion or USD 9.2 billion.

On October 15, 2018, the company has elected to pay back USD 476 million in cash in connection with its outstanding convertible senior notes due 2018, including interests, instead of a potential dilution of more than 1.5 million ordinary shares.

Now turning to outlook. For the fourth quarter of 2018, the company expects the net revenue growth to continue at a year-on-year rate of approximately 15% to 20%, which is calculated on the estimated net revenue of the fourth quarter of 2018 under the new revenue recognition standard and the net revenue of the fourth quarter of 2017 retrospectively adjusted. This forecast reflects Ctrip's current and preliminary view which is subject to change.

That concludes our prepared remarks. Operator, now please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Binnie Wong from HSBC. Please go ahead.

Wai Yan Wong ***HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst***

James, my first question is on the macro headwinds. Would you please kindly share with us how the travel industry, both domestic and outbound travels, have been affected by challenging macro conditions and also renminbi depreciation, which could negatively affect the outbound travels? Also being an industry leader with growing outbound revenue contribution, how do you see we can weather through these micro headwinds? And my second question is just a housekeeping question. On the revenue guide of 4Q of 15% to 20%, any color on the growth by segment? Those are my 2 questions.

Jianzhang Liang ***Ctrip.com International, Ltd. - Co-Founder & Executive Chairman***

Okay. First, on the macro condition. I think despite the short-term fluctuation due to sentiment and the trade friction, the long-term prospect of China's economy is still very positive. Actually, I wrote a few articles commenting on that. The argument is that China's per capita GDP still lagging by a wide margin the -- its potential measured by technology capability, measured by infrastructure or human capital level. So China should have been much richer given all these factors. For example, China should be -- there's no reason China should be poorer than Greece and Argentina, which is almost double China's current per capita level. The reason Chinese are still much poorer than they should be is because of China's low urbanization rate. China's urbanization rate is -- currently, it's only 50%. If you compare to other countries with a similar level of development, it should be 70% to 80%. So in the next 10 or 20 years, China still has potential to further urbanized by 20% to 30%. That's what we're talking about in 1%, 2%, 3% -- 1% to 2% a year. That said, it's going to generate 3%, 4% annual growth per year. So in the next 10 or 20 years, China is still going to be one of the fastest-growing major economies in the world, and that will certainly benefit all sectors, especially travel. And in particular for travel, China's -- Chinese probably will be the most traveled compared to other countries because, as I said, the infrastructure in China is still well ahead of its peers because of -- due to high-speed railways, because the amount of money continue going to the infrastructure and because China, as a location, in China, you have a lot more interesting destinations around China and within China compared to the current leader in traveling, the United States. So -- and I think if you're talking about like the percentage of GDP devoted to travel, China is probably one of the -- I think, on the high end. So that's why I'm still very positive about the overall economic growth and the potential for travel. And Ctrip certainly will leverage the scale of the Chinese travelers, the large assortment of travelers and to -- not only to capture the Chinese traveling market but also international travel market, including inbound market and other markets in other countries. So Ctrip is very strategically well positioned to capitalize on all these factors. Thank you.

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Yes. I'll walk you through the revenue for each segment. So our total net revenue is expected to grow at around 15% to 20% year-on-year for each line item, accommodation reservation is expected to grow at about 20% to 25% and transportation revenues will grow at about 10% to 15% year-over-year. Packaged tour business will continue to have a healthy growth at around 25% to 30%, and corporate travel business will continue to grow at around 20% to 25%. Thank you.

Operator

Ronald Keung from Goldman Sachs.

Ronald Keung ***Goldman Sachs Group Inc., Research Division - Executive Director***

My question at the revenue for your margins. Can you share with us sort of your margin outlook for the fourth quarter? And just really, if you could share a bit of the color for 2019 given your mid -- sort of mid -- sorry, midterm margin of 20% to 30% non-GAAP target in 1 to 2 years, just want to hear the latest thoughts on the margin outlook.

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Thank you. In the fourth quarter, we expect our non-GAAP operating profit will be in the range of 0 to RMB 100 million, implying a non-GAAP operating margin at about 0 to 1%. The steep margin drop quarter-over-quarter was mainly due to a couple of reasons. First, a worsened seasonality resulting from the new revenue accounting standard because the October holiday revenue previously recognized in the fourth quarter but now is largely in the third quarter already. And the second reason is also because of the macro slowdown which impacted our revenue growth year-over-year. And also non-GAAP operating expenses will be relatively stable, similar to the year 2015 and 2016 as opposed to the 2017 -- as opposed to the fourth quarter of 2017, which we had some unfortunate PR incident. So that's why we actually intentionally cut down our sales and marketing spending about 15% quarter-over-quarter last year. So we will slightly increase our sales and marketing expenses in the fourth quarter to capture more market share. And in terms of our guidance for the 2019, maybe because with Ctrip app, the customers' booking on trip is now becoming very easier. The booking window for our customer is now becoming very short. And plus, there also will be some short-term uncertainty on the macro next year. So it's very, very difficult for us to provide a clear picture as to the absolute growth rate for next year at this moment. However, as James said, our clear -- our strategy is very clear. We have confidence in the long-term growth of China's economy. Therefore, we will continuously make investments in our service and technologies as well as cost efficient sales and marketing channels to further extend our competitive advantages and accelerate market share gain, especially during the low times. Thank you.

Operator

Mr. Gregory Zhao.

Xiaoguang Zhao ***Barclays Bank PLC, Research Division - VP***

So first one, last night, per Priceline, their earnings -- sorry, Bookings earnings conference call, the CEO mentioned he loves China and described how important China is for their growth. Then he also mentioned their stake in Ctrip, Meituan and the recent investment in PD. So have you seen any changes of your partnership with Bookings or some changes or updates to the competitive landscape? And my second question is can you give us some updates on the hotel take rate through especially the higher-tier cities and the lower-end hotels, respectively? And what's the industry trend of the take rate?

Jane Jie Sun ***Ctrip.com International, Ltd. - CEO & Director***

Thanks for your questions. For the Priceline investment in Ctrip and our partnership with them, we always highly respect our partner. I think in the past, working with the best in the industry, in the hotel business, really helped our team to learn from the best. And our partnership with them always are very engaging, and we have very high respect for them. And going forward, I think our team will also use our strength, which is one-stop shopping platform and also the excellent customer services, to further penetrate into the market we have. And regarding the take rate, I think it's going very steady.

Operator

Ms. Alicia Yap from Citigroup.

Alicia Yap ***Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research***

I have some follow-up questions on the margins. So Cindy, if you can clarify that 79% gross margin, is that a new norm? And should we actually expect a little bit lower into the fourth quarter given your step-up kind of like customer service quality? And how should we think about the slide on gross margin, should we actually expect that to gradually rebound? And then I think, Jane, on your prepared remarks on the margin when you talked about the trailing 12-month GMV, you also talked about the non-GAAP op margins of 20%. Just wanted to clarify, are you referring to trailing 12-month, Ctrip actually achieved that 20% margins? And can we also expect that in 2019, we could also achieve that?

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Thank you, Alicia. Yes, let me first clarify about the margin. So we are actually -- Jane is actually talking about the trailing 12-month GMV, which grew -- the gross rate is around 30% to the level of RMB 690 billion level. And the margin, non-GAAP operating margin of 20% is only for the third quarter of 2018. In terms of the gross margin, so the decrease of gross margin is mainly due to a couple of reasons. The first is our service cost in relation with our customer-centric initiative to further enhance our service quality. And the second is because we opened a few new international call centers this year to serve the increasing customer demand from our international markets for Trip.com and Skyscanner. And the third reason is mainly because of the seasonality reason, given it's a peak season, especially for our packaged tour business, which has a comparatively lower gross margin and the increasing revenue mix from certain packaged tour business that we consolidated in the previous year also dragged down some of our gross margins in the third quarter. In the future, we will continuously invest in service-related technology and gradually improve our operational efficiency in the service center for both our domestic markets as well as Trip.com, especially after Trip.com can achieve certain level of scalability in the newly established call center. However, it takes some time. So in the next couple of quarters, we forecast our gross margin will be in the range of 75% to 80%. Thank you.

Operator

Billy Leung from Haitong International.

Ka Wai Leung ***Haitong International Research Limited - VP & Sector Coordinator***

I just wanted to go into details of our operating leverage. I mean, we've done 1 -- quarter 3, but can we just go into detail of what we are doing to actually improve this operating margin? I mean, what kind of initiatives we're doing. That will be great.

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

We actually closely monitor our operational efficiency across all our expense line items. For example, in the sales and marketing channels, we have a very, very consistent strategy that we will look at investment -- ROI for each of the channels. So that's why make Ctrip, when we acquire new users, our mobile customer acquisition cost actually is only a very small fraction of our customers' annual revenue contribution to Ctrip. Even though in the last couple of quarters, a large portion of our newly acquired customer actually are coming from the lower-tier cities. And we were -- our team will continue to work very hard to streamline our operation efficiency going forward. Thank you.

Operator

Ms. Natalie Wu from CICC.

Yue Wu ***China International Capital Corporation Limited, Research Division - Analyst***

Yes, can you hear me?

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Yes, we can hear you, Natalie.

Yue Wu ***China International Capital Corporation Limited, Research Division - Analyst***

Great. Cindy, you just mentioned, for the fourth quarter, you expect 10% to 15% growth for the transportation business. But I thought about your transportation, 15% to 20% comes from ground ticketing, 20% from Skyscanner and about 20% from international flights, excluding Skyscanner, over and above growing at about like 30% year-on-year. So does that mean you expect no growth for your domestic flight business in the fourth quarter? As I recall, the change for the above-the-line route for your domestic flight business actually took place in the third quarter, so there should be no like a comparison issue for the year-on-year growth for that in the fourth quarter, right? So just wondering what's happening here. And how should we see the business going forward? And also my second question is about the recent hotel cancelation route. I saw you announced the cancelation route last week. Wondering if there's any impact on your P&L or the complete the impact could be shifted to the hotel operators?

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Thank you, Natalie. For the domestic air ticket, yes, we still -- although we have some negative impact on the revenues per ticket because of the change of our operation route, we actually still see a quite healthy volume growth in the last couple of quarters. And we already -- for the domestic air ticket, our goal is to further strengthen our partnership with all the airlines. And at the same time, we see domestic air ticketing now becoming more traffic source as opposed to a revenue contributor. For the second question regarding the cancelation route, yes, Ctrip -- although there are maybe some macro uncertainties but what we observed is that Ctrip actually -- compared with the industry, our Ctrip business is much more resilient than the industry average for a couple of reasons. First, as I said, we have a very consistent and efficient customer acquisition strategy. And the second is, thanks to the vastness of its platform, we feel Ctrip existing customer base actually is more towards the mid to high end. And what we observed is our high end -- or higher-tier city users hold their spending much better than lower-tier cities, especially during macro slowdown. Therefore, Ctrip will continuously make investments in our service and related technology to further strengthen our leadership and very strong branding to be the best service provider. That's the background that we promote, the cancelation route. It definitely will have and already have some negative impact on our gross margin. As you see, our gross margin actually decreased a bit compared with last year. But we think this initiative is actually helping us to build a more solid foundation for our future growth. Thank you.

Operator

Ms. Wendy Huang from Macquarie.

Wendy Huang ***Macquarie Research - Head of Asian Internet and Media***

So starting with -- so you talked about your long-term, medium-term GMV growth, you think that growth can be 30%. Yet, in the last 2 years, although as James mentioned earlier, the GMV growth remained healthy at 30% rate, but the rent growth has been persistently low, probably due to dilution of the take rate. So is it fair to think that, actually, your long-term revenue growth will be persistently low at 20% despite of the 30% GMV growth outlook? And third, how will you kind of balance your spending amidst the increasing, I would say, macro uncertainties as well as the need for the long-term growth sustainability?

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Thank you, Wendy. Yes, in terms of the growth trajectory, mid- to long-term growth, although we actually had the PR incident in fourth quarter last year and domestic -- our domestic air ticket revenue adjustment in the first 3 quarters this year. But yes, our trailing 12-month GMV still grew at about 30% level. So at -- our top priority from now to the year 2020 will still be more aggressively outpace industry growth and gaining market share given the huge travel TAMs, both domestically and internationally. Therefore, if the market will not further deteriorate significantly, our original 2020 GMV target is still -- we think it's still achievable. And as I said, we will continuously to -- although there might be some macro slowdown or uncertainties ahead of us, but our strategy is clear. We see huge potential. We are optimistic on the future growth of China's economy. So that's why we will continuously make investments in service, technology as well as in the cost efficient sales and marketing channels to further expand our leadership here in the market -- in travel market. Thank you.

Operator

Mr. James Lee from Mizuho Securities.

James Lee ***Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst***

Jane, I was wondering maybe you can talk about competition with Meituan a little bit and maybe you can talk about from their perspective, their subsidy strategy in high-star hotels. Where are they now? Do you see a need to respond? And just curious why or why not. And can you also talk about your own strategy in the low-star hotels? Kind of where are you now versus Meituan? And do you need to step on the gas here?

Jane Jie Sun ***Ctrip.com International, Ltd. - CEO & Director***

Sure. I think we booked mainly what our customer is looking for and develop our strategy really circling around our customer. So what we have seen is on our platform, our customers' age right now, 70% of our customers are below 35 years old. And our loyalty and stickiness have been increasing every year. And included in this portfolio, the customers that are below 29 have been increasing from the original 30% to around 50% right now. So that is a very healthy migration from a pure business customer to a more diversified customer. So our number in the results also reflected our focus. So for Ctrip, our high and reliable service attracts the business travelers very well as well as the middle to high-end customers very well. And their contribution to our platform every year has increased. Right now we have seen, on average, CNY 5,000 per year per person on our spending. And that number has been increasing year-over-year. That's a reflection of our strength. Secondly, our marketing strategy is also not only focused on the stronghold for Ctrip in the first-tier cities and economically developed cities, we also look at the other third-tier, fourth-tier cities. So on Ctrip brand, as we disclosed, the year-over-year growth for volume is more than 50% in these lower-end hotels. So for us, the high-end customers in first-tier cities, we really win because of our one-stop shopping platform and a strong customer service capability. For the fourth-tier, fifth-tier cities, we win really because we are very aggressive in penetrating into these new areas. And we have seen very good results from these areas. And thirdly, I think our product is also very innovative. We sell such a comprehensive offer of different products. So when we launched high-speed railway packages, these high-speed tickets enabled us to reach to the cities which will take, in the old days, maybe 4, 5 hours to reach. Now within 1 hour, 2 hours, our customer we will be able to reach. So that gives us anchor for us, to use our product as an anchor to effectively convert these customers onto Ctrip's platform. And then we also have seen great results for that. So in summary, I think, again, Ctrip's strength is always technology investment, a one-stop shop platform, product innovation and a strong customer service reliability. So these items, year in, year out, represent Ctrip's strength, and we'll compete by utilizing these strengths. Thank you.

James Lee ***Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst***

And just a quick follow-up, Jane, thanks for your answer. So it sounds like you don't need to change your subsidy strategy or discounting strategy very meaningfully for high-star hotels because you have a stronghold in that market in the low-tier -- low-star hotels because you have a strong value proposition there. Is that a fair assumption? And also, secondly, maybe help us understand how your call center assets are actually a very important competitive advantage in the high-star hotels.

Jane Jie Sun ***Ctrip.com International, Ltd. - CEO & Director***

Yes. I think our team is very agile. We monitor the market very carefully, but we always compete on our strengths, which is we talked about the other product offering, one-stop shop, penetrate into the lower market through our product innovation. I think year in, year out, everything -- when we started our business, there were lots of competitors, and using price competition, can win market share but cannot win in the long term. So I think we -- again, we will win the market and customer loyalty based on our strength of customer service, technology investment, product innovation and service.

Operator

Ms. Tian Hou from T.H. Capital.

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

My question is related to the accessibility of your services. Last year, you said, the China urbanization still has a long way to go. And also, we have a lot of population to grow, second baby, third baby. And yet, Ctrip services actually mainly are in the major cities. And like we all know, when we go to lower-tier cities, you ask people, what is Ctrip? They may say in Chinese, it's the (foreign language). So I wonder how Ctrip is going to make new services accessible by those lower-tier cities? And you have made some efforts in that front. I wonder if you could give us some -- or introduction in about your past efforts and the results as well as your future steps to increase your accessibility towards existing population and the future growing population?

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Thank you, Tian. So in the lower end of the market, given our penetration is still quite low, so at the current stage, yes, Ctrip's top priority in this segment will be more aggressively gaining market share. Even in the short term, it might be at the extent of taking lower take rates. As Jane explained, Ctrip -- actually, one of the competitive advantage for us now is to already build a travel super app in the China market. We have the most comprehensive product offering, not only to cover the mid- to high end of the market, but also we have like ferry tickets, bus tickets, all kinds of products to best fit perfectly for those targeted lower end of the customer need. And Ctrip's app now -- and according to our cohort data, we have been able to also increase our average travel spending for each year by multiple-fold, resulting in our repeat in customer accounts for more than 80% of the total transaction. And this one-stop shopping center model, the super app model, also significantly help us in terms of user acquisitions. So our mobile customer acquisition cost is only a very, very small fraction of our average annual commission we earn per user, even though most of the new users actually are already coming from the lower-tier cities, thanks to the very comprehensive product offerings that fits their demand. Yes, James.

Jianzhang Liang ***Ctrip.com International, Ltd. - Co-Founder & Executive Chairman***

Let me just add one more thing. I think for our lower-tier cities, train, high-speed railway will be the most important transportation tool. And Ctrip is in a very good position to leverage its strength in train products and in recently launched high-speed rail tour product. As you know, Ctrip has the highest market share and the fastest -- still very fast growth in high-speed train to launch high-speed train tour package.

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

So in summary, by adding all travel-related product and service into our super travel app, we will make sure that once a customer have the real travel demand, they will definitely find that either Ctrip or Qunar will be their first choice. Thank you.

Operator

Thank you very much. I will now hand the session back to Victor Tseng for closing remarks. Please go ahead, sir.

Victor Tseng

Thanks to everyone for joining us today. You can find the transcript and webcast on today's call on ir.ctrip.com. We look forward to speaking with you on the fourth quarter 2018 earnings call. Thank you, and have a good day.

Xiaofan Wang ***Ctrip.com International, Ltd. - CFO & Executive VP***

Thank you.

Jane Jie Sun ***Ctrip.com International, Ltd. - CEO & Director***

Thank you.

Jianzhang Liang ***Ctrip.com International, Ltd. - Co-Founder & Executive Chairman***

Bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Thank you.

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